

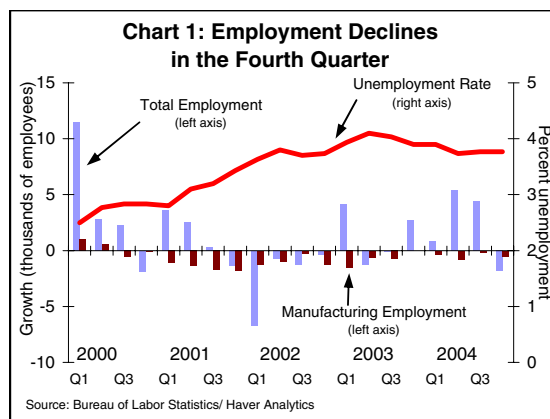
FDIC State Profile

Spring 2005

Nebraska

Nebraska's economy lost momentum in the fourth quarter of 2004.

- Total employment decreased by 1,800 jobs in the fourth quarter, reversing a four-quarter trend of increases (See Chart 1). The largest decreases were in the education, healthcare, government, and construction sectors.
- The manufacturing sector remained weak. The quarter showed a decline in manufacturing employment, which contributed to a year-over-year loss of 1,700 jobs, the fourth annual contraction of the sector. Declines in fabricated metals and food processing accounted for a majority of the jobs lost in 2004.
- The unemployment rate remained unchanged from the previous quarter at 3.8 percent, compared with 3.9 percent for fourth quarter 2003.



Banking performance remains solid.

- Asset quality, which suffered only modestly through Nebraska's 2000-03 economic downturn, continues to improve (See Table 1). After remaining flat the past four years, loan activity picked up in 2004. The median loan-to-asset ratio climbed nearly two percentage points to 66.7 percent.
- Nonagriculture loan mix continues shifting into commercial real estate lending, and business lending notched its first material growth in five years. Overall, residential real estate and other consumer lending continue to slowly decline relative to other lending activity.
- The proportion of unprofitable, established institutions in Nebraska was 1.5 percent at year-end 2004, about one percentage point below the previous two years and the lowest rate in the past five years.¹

Nebraska's major commodities are forecast to earn less for farmers in 2005.

- In February 2005, the United States Department of Agriculture (USDA) forecast that 2005 farm income will

Table 1: Asset Quality and Earnings Continue to Improve at Nebraska's Insured Institutions

	12-04	12-03	12-02	12-01	12-00
Capital					
Tier 1 Leverage Capital	9.6	9.7	9.5	9.5	9.5
Asset Quality					
Past Due Loan Ratio	1.68	1.85	2.08	2.06	1.77
Net Charge-off Rate	0.07	0.12	0.11	0.10	0.04
Earnings					
Pretax Return on Assets	1.42	1.38	1.47	1.29	1.48
Net Interest Margin	4.18	4.20	4.29	4.10	4.21

Source: FDIC. Figures are median percent values.

Table 2: U.S. 2005 Farm Income to Decline from 2004 Record

\$Billions	2003	2004	Forecast 2005	Change 04-'05
Value of crop production	108.0	119.5	101.3	-18.2
Food grains	8.0	9.3	8.2	-1.1
Feed crops	24.3	27.0	25.3	-1.7
Oil crops	17.3	18.6	14.7	-3.9
All other crops	58.4	64.6	53.1	-11.5
Value of livestock production	104.7	122.2	117.9	-4.3
Meat animals	56.2	61.1	60.4	-0.7
Dairy products	21.2	27.8	25.0	-2.8
Other Livestock	27.3	33.4	32.5	-0.9
Other Revenues	28.2	28.7	30.0	1.3
Value of agricultural production	240.9	270.5	249.2	-21.2
Direct Government payments	15.9	14.5	24.1	9.6
Inputs, Taxes, Capital	(197.6)	(211.4)	(208.9)	2.5
Net farm income	59.2	73.6	64.4	-9.2

Source: USDA Economic Research Service

¹Established institutions are insured institutions that have been in operation for at least three years.

decline from the record level reached in 2004 (See Table 2). Nebraska, which is a leading producer of corn, soybeans, and cattle, will likely experience a decline in revenues from each of these commodities.

- Low commodity prices may be at least partially offset by higher counter-cyclical government payments forecast for 2005.

Commercial banks are likely to face pressure to raise nonmaturity deposit rates.

- In relatively stable interest rate environments, the cost of bank nonmaturity deposits typically run at about half of the Federal funds rate. When short-term rates tumbled in 2001 and 2002, however, deposit rates failed to completely follow, indicating that nonmaturity deposit rates had reached a natural floor (See Chart 2).
- Should interest rates continue to rise, banks will likely feel increasing pressure from customers to raise deposit rates.

Nebraska's farmland increased in value significantly in 2004.

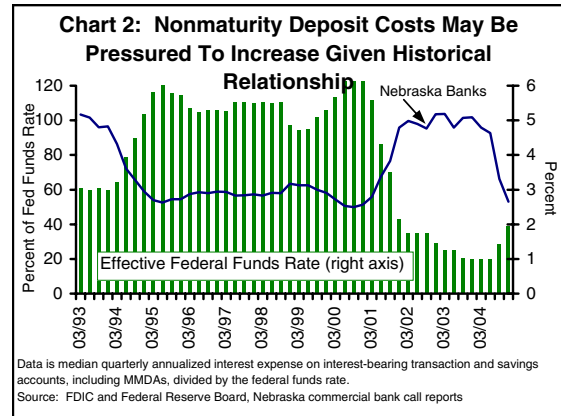
- According to an annual survey by the University of Nebraska, the average value of Nebraska farmland increased more than 9 percent in 2004, compared with an annual average increase of 3.6 percent over the previous decade. The increase, the largest in 14 years, was distributed widely across the state (See Map 1).
- While the average price of \$827 per acre was the highest recorded in current dollars, farmland prices in the 1980s were considerably higher in inflation-adjusted dollars. In 1982, for example, Nebraska's average land price exceeded \$1,211 in 2004 dollars.
- Survey respondents listed low interest rates and demand by non-farmers as the most important factors contributing to price increases. The installation of irrigation equipment in Eastern Nebraska has also contributed to increased value in those areas.

Farm banks are concentrating agricultural lending on farmland.

- Over the past decade, farm banks have taken steps to diversify their loan portfolios, which tend to be heavy with agriculture production loans. Such loans declined from 46.9 percent of total loans to 38.2 percent between year-end 1994 and 2004 (See Chart 3).
- Despite the overall decline in farm operating loans, reliance on farmland-secured loans increased 35 percent during that period, with much of the increase coming in recent years. The increase in farmland lending is

attributable to increased demand for farmland for both agricultural and nonagricultural uses, coupled with the stimulus of historically low interest rates.

- With nearly 20 percent of farm bank loan volume secured by farmland, its price stability becomes more important. Any unexpected shocks to farmland values, such as swift increases in interest rates, significant cuts in federal farm payments, or decreased demand for farmland used for urban expansion or recreational purposes, could have adverse effects on producers and agricultural lenders.



Map 1: Nebraska Farmland Values Increased Significantly in 2004

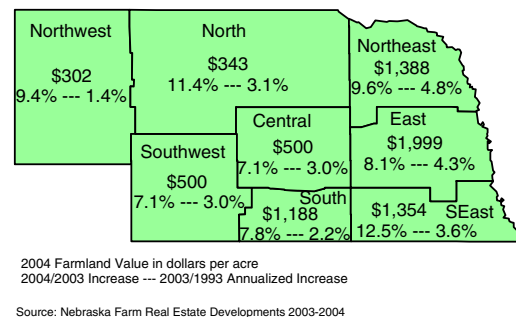
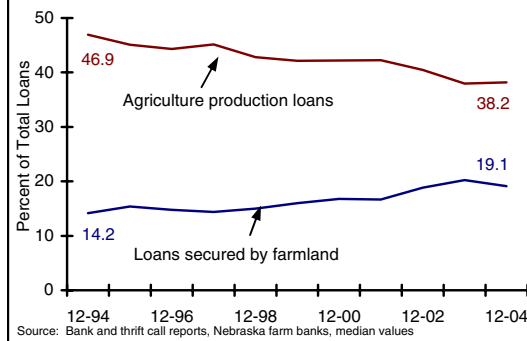


Chart 3: Lending Against Farmland Is Increasing Although Overall Ag Exposure Is Declining



Nebraska at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.1%	0.6%	-1.0%	0.5%	1.1%
Manufacturing (11%)	-1.9%	-2.7%	-3.3%	-5.1%	0.9%
Other (non-manufacturing) Goods-Producing (5%)	-1.8%	3.6%	1.0%	3.3%	-1.2%
Private Service-Producing (67%)	2.1%	1.1%	-1.3%	0.8%	1.4%
Government (17%)	0.2%	0.0%	1.2%	2.9%	0.8%
Unemployment Rate (% of labor force)	3.8	3.9	3.7	3.4	2.8

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	7.1%	1.1%	4.2%	2.5%
Single-Family Home Permits	9.5%	5.2%	24.4%	7.4%	-18.1%
Multifamily Building Permits	64.2%	-23.4%	131.3%	-53.3%	-24.3%
Existing Home Sales	-3.7%	6.4%	16.1%	-3.1%	0.0%
Home Price Index	5.0%	4.2%	3.1%	4.2%	3.8%
Bankruptcy Filings per 1000 people (quarterly level)	1.23	1.19	1.15	1.00	0.82

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	263	270	281	290	291
Total Assets (in millions)	46,087	45,606	48,210	46,600	45,171
New Institutions (# < 3 years)	2	3	4	6	4
Subchapter S Institutions	79	75	70	68	57

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.68	1.85	2.08	2.06	1.77
ALLL/Total Loans (median %)	1.51	1.57	1.53	1.57	1.47
ALLL/Noncurrent Loans (median multiple)	2.19	2.01	2.09	1.95	2.20
Net Loan Losses / Total Loans (median %)	0.07	0.12	0.11	0.10	0.04

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	9.64	9.68	9.54	9.50	9.50
Return on Assets (median %)	1.09	1.05	1.10	0.97	1.10
Pretax Return on Assets (median %)	1.42	1.38	1.47	1.28	1.48
Net Interest Margin (median %)	4.18	4.21	4.27	4.10	4.23
Yield on Earning Assets (median %)	5.88	6.18	6.96	7.99	8.41
Cost of Funding Earning Assets (median %)	1.72	2.03	2.69	3.91	4.23
Provisions to Avg. Assets (median %)	0.07	0.11	0.13	0.12	0.08
Noninterest Income to Avg. Assets (median %)	0.53	0.55	0.52	0.52	0.48
Overhead to Avg. Assets (median %)	2.84	2.81	2.79	2.76	2.73

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	66.7	64.7	65.4	64.8	64.9
Noncore Funding to Assets (median %)	17.3	17.1	16.5	15.4	15.5
Long-term Assets to Assets (median %, call filers)	11.7	11.7	10.3	10.2	10.0
Brokered Deposits (number of institutions)	82	81	83	80	82
Brokered Deposits to Assets (median % for those above)	2.7	2.3	2.6	2.5	2.6

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	76.7	75.6	75.1	76.0	77.3
Commercial Real Estate	57.9	46.8	47.2	44.7	43.2
Construction & Development	3.0	2.6	2.7	2.7	1.8
Multifamily Residential Real Estate	0.0	0.0	0.0	0.0	0.0
Nonresidential Real Estate	42.5	39.6	35.1	33.1	28.5
Residential Real Estate	67.6	66.4	75.0	76.5	73.2
Consumer	38.8	44.2	48.6	54.8	53.9
Agriculture	301.9	282.4	288.1	308.1	312.5

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Omaha-Council Bluffs, NE-IA	75	13,804	< \$250 mil.	241 (91.6%)
Lincoln, NE	25	4,435	\$250 mil. to \$1 bil.	16 (6.1%)
Sioux City, IA-NE-SD	33	2,042	\$1 bil. to \$10 bil.	5 (1.9%)
			> \$10 bil.	1 (0.4%)